



# Finance Caucus Meeting

May 19, 2011

## MEETING SUMMARY

### **CALIFORNIA WATER PLAN: UPDATE 2013 FINANCE CAUCUS MEETING MAY 19, 2011 1:15 P.M. – 5:00 P.M. CALEPA, COASTAL HEARING ROOM 1001 I STREET, SACRAMENTO, CA**

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#### Action Items

- **Definitions Sub-committee**: Valerie Nera and Danny Merkley will lead the definitions sub-committee.
- **Email for Sub-committee**: Paul Massera will send out an email asking for interest to work on the Definitions subcommittee.
- **Definitions**: Add the following terms for definition: constitutional, equitable, social interest.

#### Welcome and Introductions

Lisa Beutler, Executive Facilitator for the Water Plan, reviewed the meeting workbook and agenda. Ms. Beutler noted that the session would cover some introductory materials on the overall scope of the Water Plan. The balance of the meeting focused on the draft framework for developing a water finance strategy. The material in the section on guiding principles was described as quite provocative – since there are various perspectives that could be incorporated in guiding principles, that do not necessarily agree. These are provided as a basis for discussion and obtaining feedback from the group. The meeting will conclude with a presentation on shared definition for common terms. The agenda and all other meeting materials are available online at: [www.waterplan.water.ca.gov/materials/index.cfm?subject=may19b11](http://www.waterplan.water.ca.gov/materials/index.cfm?subject=may19b11).

Ms. Beutler provided an overview of roles and responsibilities for caucus members, including attendance, communication and decision-making aspects. Members are asked for a commitment to attend and participate in caucus meetings and to act as a liaison to share information with others. It was noted that staff will be providing content support and resources.

In discussing the section of the charter addressing internal and external communications, members are invited to share meeting summaries. The summaries will not attribute comments to specific individuals. Also, the Water Plan may eventually make a recommendation that does not



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reflect the direction in which you, or your organization, are headed. It would be appreciated if you could notify the facilitator or team lead if your group chooses to develop independent recommendations. Areas of disagreement will not affect the integrity of this conversation.

Introductions were then made around the room. Paul Massera, Program Manager for Update 2013 welcomed caucus members and expressed his appreciation for their participation on the important topic. He recapped that the caucus conducted their first meeting on April 28<sup>th</sup>, discussing the basis for the caucus and a conceptual framework that reflected key finance components and topics discussed on April 28<sup>th</sup>. At the first caucus meeting, members also heard from the Stewardship Council, Water Commission and the Legislative Analyst's Office on other activities relating to water finance. Based on comments that were received, the conceptual framework was expanded into a draft annotated outline that will be reviewed.

## **Overview of California Water Plan: Update 2013**

Mr. Massera provided an overview of the broader California Water Plan effort and described how a finance plan could be integrated into the various foundational and new Water Plan components. Update 2013 builds on the work of Update 2009, including the existing strategic plan framework and on the extensive coordination and collaboration with multiple groups and interests. Foundational components of Update 2013 represent key features of the Water Plan, from Update 2009 and before, that will continue. This includes the following:

- Strategic Plan: that informed Prop 84 language and IRWM financial assistance criteria. High-level finance recommendations will be published in the Update 2013 strategic plan.
- Water portfolios: depict the historical water use and balance against supply for the years 1998 – 2009. This information shows the range of regional variability.
- Regional Reports: describe the regional resource management objectives, as well as funding proposals and priorities.
- Future Scenarios: outlining three scenarios to provide both qualitative and quantitative assessment of Resource Management Strategies for different futures
- Resource Management Strategies (RMS): describe the range of choices for meeting resource management objectives. For each strategy, an estimate of benefits and magnitude of cost can inform the estimate of statewide Integrated Water Management (IWM) costs through 2050.
- State and Federal Companion Plans: describe program and policies that require funding and are within the scope of IWM. Consistency and coordination of the associated funding proposals could be brought forward into recommendations for the Finance Plan.

New content areas for Update 2013, referred to as content enhancements, cover a variety of ideas and topics. Many of these areas relate to the work of the Finance Caucus:

- Finance planning for integrated water management
- Reinventing Regional Reports
- Improved understanding of groundwater conditions
- Better integration of flood management planning
- New water technology and research and development



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Outreach venues for Update 2013 will continue to support coordination at different levels, including:

- State Agency Steering Committee, now at 30 agencies
- Federal Agency Network
- Public Advisory Committee
- Tribal Advisory Committee, with 40 Tribal communities who have identified participants
- Topic Caucuses
- Regional Forums
- Statewide Water Analysis Network, providing technical input
- Annual Plenary Meetings

This represents a great deal of coordination across the various outreach efforts. Also, the California Water Commission will be looking at the public benefits associated with water storage and will involve coordination on aspects of the Finance Plan. The work of the Finance Caucus will need to accurately reflect regional needs and help inform decisions at multiple levels.

## **Discussion:**

Question: Does the Water Plan represent a collection of goals within the State, or for the State? Is the planning intended for the State overall?

Response: The recommendations will address both – overarching objectives and more regionally focused objectives. The balance between those two sets of goals will be an important conversation.

## **Framework Refinement**

Mr. Massera then referred members to the draft annotated outline, labeled “Appendix II” and located about halfway through the workbook. This outline further develops the previous framework, with text providing a basis for discussion and what the various section headings might involve. The material is provided to help understand the framework of the plan. A brief description was provided for the main headings in the Table of Contents.

## **Discussion:**

### **Overall**

Comment: There are some concerns in how this was assembled and presented and perhaps this could have been entered into a little more carefully.

Response: This was presented for discussion purposes and the focus is to hear what you suggest be contained in the chapters. Some of what has been presented represents comments that have been received to date. That said, the statement is fair and has been acknowledged.

Comment: The local and regional perspective seems to be missing from this outline. Aspects such as local match are intermingled with State funding.



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Comment: At the last meeting, it was suggested that a section be added on historical funding of resource management. This would describe that local governments have traditionally built the infrastructure and funded it through local ratepayers and the water fee process – for the most part. The history funding section could set that context to show how funding has been done. Then the current and funding practices would describe patterns of bond funding and IRWM efforts, with the State allocating funds to where it believes it needs to go (with matching funding). Setting the complete context creates a place for making decisions about a future. It's essential to not imply that state projects need local fees to support them.

## Imperative to Act

Comment: The point about aging infrastructure needs to be greatly expanded. This issue is significant for every water agency, while SB 84 is trying to put a charge on water agencies. Also, there are water agencies in southern California willing to pay \$1,000 an acre foot for desal because of reliability and delivery costs. In Carmichael, over the last 15 years, the rates per customer have increased from \$100 a year to about \$600. There is a real inability to pass through revenue to the water agencies. Utility bills for waste water, water and metering will be substantial. Costs for infrastructure maintenance are not allowed as a conservation measure – and it is a substantial conservation measure. Add on top of this that most of the infrastructure was constructed just after World War II and we are not prepared for the spike in costs that will occur.

Response: In Update 2009, there were nine cross-cutting recommendations. The issue of aging infrastructure was listed as one of those recommendations and was elaborated on in Volume 1. We hear that this needs to be elaborated on and that it is more complex than is currently presented.

Comment: This is a critical issue that needs to be included in this chapter.

## Criteria for Prioritizing State Funding

Question: Why would we limit criteria for prioritizing to only State funding? How does this relate to SB 34?

Comment: Does this section address state allocations of funding or state sources of funding?

Response: Both are within the scope. The discussion today is that the Water Plan will be developing a finance strategy, which will be discussing criteria for identifying the state's priorities for investment how much the priorities might cost, then how these activities might be funded.. There is a current funding approach that uses bonds. There are other types of proposals and there will be some discussion in the Water Plan about that. The work of the Finance Caucus is to discuss what that finance strategy will contain.

Comment: This section seems to prioritizing allocations of funds. It is imperative to clearly distinguish funding sources and funding allocations.

## Guidelines for Analysis

Clarification: This section would discuss analytical tools and quantification methods.



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## Historical Funding

Comments:

- Historical – is this last 50 years?
- Should look at legislation and regulatory environment that allowed infrastructure to be built (and convert costs to constant dollars – e.g. 2010 dollars)
  - Central Valley Project
  - State Water Project
  - Case studies – scale of funding and where funding comes from
  - Local infrastructure – pay as you go; ratepayers
  - Governor Pat Brown opposed WWII boom of projects

## Recent and Current Funding Practices

Comments:

- Recent (1970 → 2005)
  - Prop 13 Initiative and growth of initiative process
  - Reliance on system for existing infrastructure that was relatively intact
- Current (2006 → 2011)
  - Bonds
  - Prop 218 and 26
  - Economic downturn
  - Current environmental legislation and regulation: ESA, NEPA, CEQA
  - Paying for past sins
  - Projects – Funding mechanism: direct/indirect benefit (don't have a constituency)
    - Stormwater
    - Environmental restoration
    - Flood
    - Canal lining in Imperial Valley
  - Natural Resources Agency's single largest General Fund expenditure was debt service of \$1 billion
    - 2012 Water Bond will add \$600 million in debt service
  - This sets the state for unsustainable financing and funding

## Statewide Summary of Funding Proposal

Comments:

- Too soon to tackle – there has to be a better understanding of what is statewide and what is regional and local
- Need goals and vision first

## Criteria for Prioritizing Statewide Funding

Comments:

#1 Inventory of projects

- Look at supply side of balance and try to determine what is oriented towards statewide, regional and local



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- Do this by looking at RMSs, which tend to focus on supply side of water balances, and break out percentages for statewide, regional and local.
- Delta solutions are the exception

## #2 Allocating funds

- Local projects may be of statewide benefit – how do you allocate these benefits?
- Deciding among ratepayers and taxpayers (communities of interest and place) and tie that to what's statewide, regional and local
- Summary of funding needs:
  - General Fund expenditures (statewide conveyance, storage, etc.)
  - Local infrastructure expenditures, including maintenance – potential state requirement for local electeds to set up funds for local infrastructure
- Critical for prioritization: economy of scale and function for long-term

## Existing Funding Sources

### Comments:

- ★ Reconcile content in this section with content of current/recent funding practices
- ★ The table on page 12 needs sections for: Federal, Tribal, State and local/regional funding Sources.
  - Local funding: property taxes are diminishing
  - Local funding: special district/benefit assessment, improvement districts
  - Federal funding: State Revolving Fund, Title 16, Corps of Engineers, Bureau of Reclamation, Water Resources Development Act
  - State General Funds: What activities are supported? What public benefit projects?
- Table on page 12, replace “Appropriate Uses” header with “Public Benefit”
  - Authorized Uses – what the destination for funds?
  - Concept: What is funding being used for? Where is funding going?
- Table on page 12:
  - Add a column to identify who approves allocations (e.g. Legislature allocates State General Funds, receiving agencies allocate user fees – now challenged by Prop 26, assessors allocate local property tax funds, etc.)
  - User fees, fines and forfeitures typically return to regulating agency (or program) and are unlikely to have other benefits – these should be combined on one line
  - Descriptions/comments should discuss match requirements (if any – grant funding may not have match requirement) and relative stability of funding source
  - Rates are another source of funding
  - Funding sources that need to be repaid (e.g. bonds) should indicate repayment source
- Question: Should there be a fee if no service is provided? (E.g. Water Boards fee regardless of whether or not there is a case brought before the Board.)

## New Funding Sources

### Comments:

- Higher rates, fees, fines
- Table on page 13, the category of “stressor fees” and the concept of “beneficiaries” seem linked to human activities. How far does this go? Does it include actions of individuals?



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- What does this mean? Some do not see water diversion as a stressor; others see it as a stressor in reducing flows to aquatic life.
- Comment: Stressor pays seems to have evolved from cleanup and abatement programs and perhaps was introduced from the Delta Stewardship Council.
  - Comment: It's not clear what the difference is between stressors and beneficiaries.

## Update 2013 Finance Plan Recommendations

Comments:

- Recommendations Format:
  - Categories or topics of funding
  - Narrative
  - Flow chart
  - Pie chart
- Basis for recommendations
  1. a. Water Commission decisions based on IRWM regional planning
  - b. Geographically-based priorities not based on IRWMs
  2. Multiple-benefit increases priorities
  3. Identified statewide priorities
  4. Proactive (cost-avoidance) early investment needs
  5. Multi-value land conservation increases priority (e.g. agriculture, flood protection, wildlife values, groundwater infiltrations)
  6. Multi-partnership and multiple funding sources
  7. Possible funding approaches
    - Population-based?
    - Area-based?
    - Amount of water? (e.g. counties of origin)
    - Seriousness of problem?
    - Protect high quality waters?
    - Subsidize based on need?
    - Support where plans (smart growth) are up to date?
    - Location of water? (energy consumption)

## **Guiding Principles**

Megan Fidell, DWR, explained that the sample list of potential guiding principles – provided for discussion purposes – drew from some existing sources including the core values and philosophies from Update 2009, the Delta Stewardship Council Finance Plan, and a recent report from the Legislative Analyst's Office. Some underlying principles are implicit, such as mitigating impacts to small water retailers and low income customers. Some implicit values have been explicitly stated here. When reviewing the principles, several categories seem to surface, including: underlying assumptions, funding sources and funding allocations.

## **Discussion:**

Comment: The principle of constitutional, equal interests does not seem to make sense.  
The issue of social interest does not seem to fit.





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Comment: The concept of social interest suggests that there are certain things that we, as a society, believe are important. For example, that under-served communities have access to clean water.

Clarification: Definitions will be important – for example (constitutional, equitable, and social interest).

Comment: It may not be helpful to call out underlying assumptions.

Comment: The principle of full-cost accounting needs to be re-written.

Question: What do these assumptions underlie? Do the assumptions underlie any proposed funding mechanism? Do the assumptions underlie anything that would be funded by that mechanism? The assumptions could be different for the two things.

Response: These appeared to be principles that underlay plans in existence.

## New Principles

- Unintended costs are reduced or mitigated. This may be part of the full-cost accounting concept.
- Recognize the uncertainty of future funding, especially state and federal funding – look to local solutions first.
- Money isn't always the answer.
- Be sure that any new revenue sources do not defer local funding efforts.
- Use life-cycle accounting for projects.
- Financial transparency – this may elaborate the concept of full-cost accounting
- Need to live within means – prioritizing efforts, some things may have to drop off the list (at least temporarily); although this may depend on how much funding you can raise
- There are times when water management decisions must protect vulnerable members of our society. (For example, nitrate levels are set to protect infants. Cleanup of contaminated groundwater may protect communities that rely solely on groundwater.)
- Carry forward recommendations on public trust and reasonable use.
- Economic, environmental and social goals are equal – identify goals and objectives, state them as equal, then identify metrics.

Clarification: The underlying assumptions represent the baseline about what we believe to be true about how things will operate. Overarching principles represent a value set. These are different from criteria for selecting a priority for a project. Once criteria are identified, then you might select a strategy and a goal.

Clarification: Can separate out underlying assumptions and guiding principles.

## **Joint Definition Building**

Valerie Nera and Danny Merkley will serve as leads for the Definitions Sub-Committee. A comment was made that definitions should be neutral in language and that having pre-approved sources may be helpful.





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## **Attendance (35):**

### **Finance Caucus Members (22):**

1. **David Boland**, Association of California Water Agencies
2. **Anisa Divine**, Imperial Irrigation District
3. **Anton Favorini-Csorba**, Legislative Analyst's Office
4. **Jack Hawks**, California Water Association
5. **Alan Highstreet**, CH2MHill
6. **Nick Konovaloff**, Regional Council of Rural Counties
7. **Sandy Kozlen**, Carmichael Water District; Sacramento Groundwater Authority
8. **Karl Longley**, California Water Institute, Fresno State
9. **Kathy Mannion**, Regional Council of Rural Counties
10. **Danny Merkley**, California Farm Bureau Federation
11. **Jeff Michael**, University of the Pacific
12. **John Mills**, Tuolumne-Stanislaus IRWM
13. **James Nachbaur**, Legislative Analyst's Office
14. **Saquist Najmus**, RMC-WRIME
15. **Valerie Nera**, California Chamber of Commerce
16. **Wendy Phillips**, League of Women Voters of California
17. **John Ricker**, County of Santa Cruz
18. **Tito Sasaki**, Sasaki Vineyards and California Farm Bureau Federation
19. **Yung-Shin Sun**, MWH
20. **Jennifer Svec**, California Association of Realtors
21. **Jeffrey Volberg**, San Diego County Water Authority
22. **Jayne Wagner-Tyack**, League of Women Voters of California

### **State Agency Steering Committee Members (2):**

1. **Bruce Gwynne**, California Department of Conservation
2. **Glenda Marsh**, California Department of Fish and Game

### **Observers (2)**

1. **John Kingsbury**, Mountain Counties Water Resources Association
2. **Tim Parker**, Groundwater Resources Association of California

### **DWR (9):**

1. **Kamyar Guivetchi**, Chief, Division of Statewide Integrated Water Management (DSIWM)
2. **Paul Massera**, DSIWM, Update 2013 Program Manager
3. **Lewis Moeller**, DSIWM, Update 2013 Project Manager
4. **Abdul Khan**, DSIWM, Co-Lead – Groundwater Caucus
5. **Jose Alarcon**, DSIWM, Lead – Water Quality
6. **Emily Alejandrino**, DWR, Lead – Tribal Coordination
7. **Hoa Ly**, DSIWM, Statewide Flood Management Planning
8. **Jim Lin**, DSIWM, Water Use Efficiency
9. **Megan Fidell**, DSIWM, Lead – Resource Management Strategies Coordination

Facilitation Team: Lisa Beutler and Joshua Biggs, MWH; Katie Cox and Judie Talbot, Center for Collaborative Policy, CSUS